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KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

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Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in hard or electronic copy. Individual authors are responsible for the views and research results.

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State of the Economy Kern County, California

A Special Issue of
Kern Economic Journal
March 2004

ECONOMY AT A GLANCE!

Kern's economy continued to improve. Businesses and households became greatly optimistic about local economic conditions. Labor markets recorded mixed results with a higher unemployment rate, but a faster growth rate of nonfarm employment. The economy created more total and per capita personal income, and higher weekly manufacturing earnings.

In the meantime, housing prices continued to appreciate with a lower mortgage interest rate. While the cost of living inflation decreased, the cost of producing inflation rose. Locally, both oil and gasoline prices plunged.

Economic Indicator	2003 3rd Quarter	2003 4th Quarter	Quarterly Change	Data Source
Household and Business Survey: Business Outlook Index Consumer Sentiment Index	104.5 114.0	115.5 143.0	11.0 29.0	Data collection and analysis by CSUB
Labor Market Conditions: Unemployment Rate (%) Kern Bakersfield Nonfarm Employment Growth (%) Kern Bakersfield	10.3 7.5 -1.6 0.8	11.8 8.5 4.8 3.2	1.5 1.0 6.4 2.4	California Employment Development Department (CEDD) Averaging, seasonal adjustment, and estimation by CSUB
Economic Conditions: Total Personal Income (\$ billion) Kern Bakersfield Personal Income Growth (%) Kern Bakersfield Personal Income Per Capita (\$) Kern Bakersfield Earnings in Manufacturing (\$/week)	13.85 7.70 3.9 5.0 20,580 31,290 545.90	13.95 7.76 2.9 3.1 20,650 31,420 593.90	0.10 0.06 -1.0 -1.9 70 130 48	Bureau of Labor Statistics (BLS) and CEDD Averaging, seasonal adjustment, and estimation by CSUB
Housing Market: Median Housing Price (\$) Kern Bakersfield New Housing Permits (#) Housing Affordability Index (%) Mortgage Interest Rate (%)	137,420 147,000 524 52 6.03	138,400 146,800 443 50 5.93	980 -200 -81 -2 -0.1	California Association of Realtors Economagic.com
Prices: Inflation Rates Consumer Price Index, U.S. (%) Producer Price Index, U.S. (%) Energy Prices San Joaquin Crude (\$/barrel) Bakersfield Regular Gas (\$/gallon)	2.35 2.65 25.04 1.80	0.87 3.42 24.95 1.58	-1.48 0.77 -0.09 -0.22	Economagic.com Berry Petroleum BakersfieldGasPrice.com

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB



Kern County's business outlook brightened in the fourth quarter of 2003. Our survey results revealed that private and public decision-makers were more optimistic about local business conditions.

We initiated the business outlook survey in the first quarter of 1999, while sampling members of the Greater Bakersfield Chamber of Commerce. Beginning this issue, we expanded the survey coverage to random samples drawn from the membership of chambers of commerce locating in Bakersfield, Mojave, Ridgecrest, Taft, and Tehachapi. The survey participants represented a wide range of industries including amusement, automotive services, business and legal services, construction, education, farming, finance, real estate, government, health services, hospitality and personal services, management, manufacturing, petroleum, retail and wholesale trade, social and cultural services, and transportation. The survey results are summarized below.

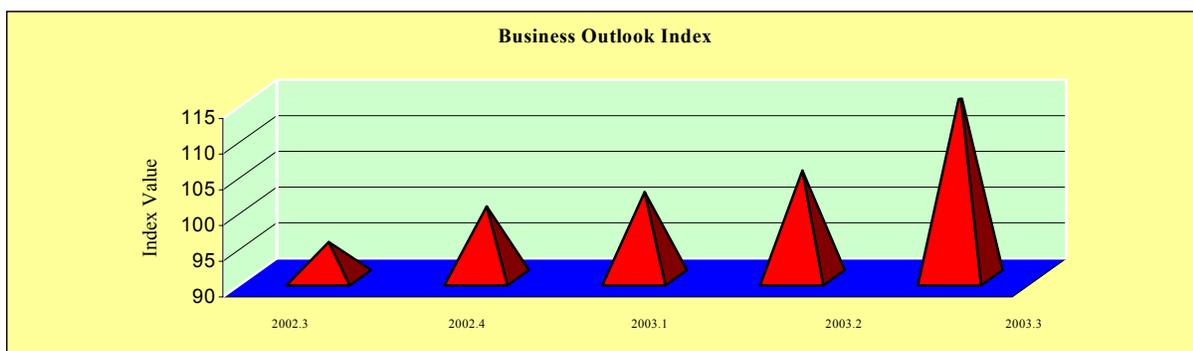
Nearly sixty percent of the survey respondents reported that the number of jobs in their companies stayed the

same as the previous quarter. Eighty-seven percent expected the number of jobs available in their companies to remain unchanged this quarter. Only twenty-five percent of the chamber membership indicated improvement in financial conditions (sales or profits) of their companies last quarter. Interestingly, however, this percentage rose to fifty-three when business managers reflected on financial conditions of their companies this quarter. The survey respondents perceived that employment and financial conditions of their industries were the same last quarter, and are likely to remain constant this quarter. The majority of the respondents felt that employment and business conditions in Kern County were the same as the previous quarter and would remain unchanged this quarter.

We enumerated the survey responses to construct the Business Outlook Index (BOI). The value of 100 indicates *neutrality* about local business conditions, greater than 100 expresses *optimism*, and less than 100 *pessimism*. As illustrated in the following chart, the BOI

(Continued on page 5)

Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	10	58	32
Employment in your company next quarter will be	7	87	6
Financial condition (sales or profits) of your company this quarter was	25	62	13
Financial condition (sales or profits) of your company next quarter will be	53	44	3
Employment and general business conditions in your industry this quarter were	29	63	8
Employment and general business conditions in your industry next quarter will be	38	61	1
Employment and general business conditions in Kern County this quarter were	17	64	19
Employment and general business conditions in Kern County next quarter will be	37	55	8



BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS
INTERIM DEAN, EXTENDED UNIVERSITY
DIVISION, CSUB

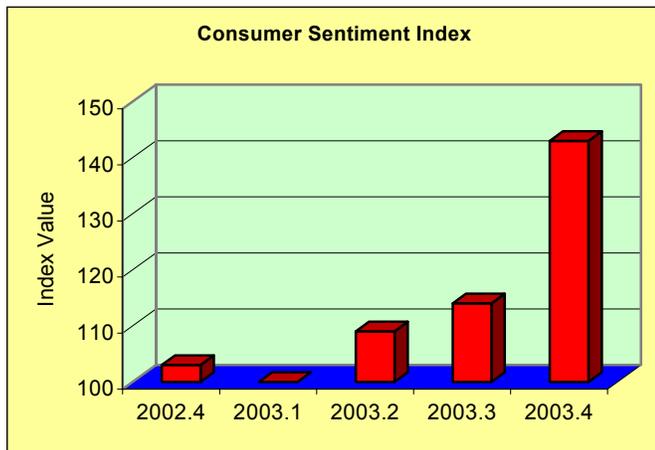


The Bakersfield Consumer Sentiment Index registered an all-time high in fourth quarter 2003, increasing from 114 in the third quarter to 143. The previous high was 133 in third quarter of 1999. We began compiling the local index in 1999. It is constructed from telephone surveys administered to a random sample of households listed in the Bakersfield section of the phone book. Index values about 100 indicate consumer optimism, while values below 100 are rare and suggest considerable pessimism. The index is disaggregated into sub-indexes relating to recent trends and future expectations. Both sub-indexes had large increases and reached all-time highs.

The Index of Recent Buying and Financial Trends is constructed from responses to questions relating to ex-

penditures on discretionary items, financial status of the household compared to one year ago, and perceived changes in the financial condition of acquaintances in Kern County. This sub-index increased from 109 to 130. Five-in-ten households reported spending more than usual on discretionary items such as dining out and entertainment, compared to just two-in-ten in the previous quarter. Households were instructed to answer positively only if spending is more than usual taking normal seasonal fluctuations into consideration (i.e., only if it was more than normal holiday spending). However, two-in-ten reported spending less than usual compared to just one-in-ten the previous quarter. Five-in-ten respondents indicated their household was better off than one year ago, compared to about three-in-ten the previous quarter.

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	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	143	114	103
Sub index: Recent Buying & Financial Trends	130	109	101
Sub index: Expectations	155	119	105

	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	50 %	30 %	20 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	51 %	37 %	12 %
How your acquaintances in Kern County are doing financially compared to one year ago.	27 %	68 %	5 %

Business Outlook (Continued from page 3)

soared 11 percentage points from 104.5 in the second quarter to 115.5 in the fourth quarter of 2003. This increase indicates that business managers are much more *optimistic* about local business conditions. The Index has gained 21 percentage points over the past four quarters.

We also asked the survey participants to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies. They felt several factors brightened the local business outlook:

- Continued real estate and construction boom
- Increased consumer spending in the holiday season
- Rapid growth of the national economy

However, the survey respondents expressed that several factors darkened the local business outlook:

- State budget cuts affecting the operation of public schools, government agencies, and non-profit organizations
- Loss of the productive reservist employees to Iraq War
- Land development erasing much of the farmland

Overall, the local business outlook brightened as the survey respondents became more optimistic. Still, the majority of them provided neutral answers to the survey questions. Several positive and negative economic factors helped local managers form their perceptions of the business climate.

Consumer Sentiment (Continued from page 4)

A bit more than one-in-ten reported they were worse off than one year ago.

To assess consumer expectations, households were asked how they thought the financial situation of their families would change over the coming year, how their acquaintances in Kern County view the coming year, and whether this is a safe or risky time to draw down savings or incur debt. This forward-looking index also increased by a large amount -- from 119 in the previous quarter to an exuberant 155. When asked the most likely financial

situation of their household in one year, an astounding 73 percent expected improvement, compared to 39 percent the previous quarter. For the second consecutive quarter, the percent expecting things to worsen was cut in half, this time from eight to four percent. There was a large increase in the percent of households who thought now was a safe time to draw down savings or incur debt -- from a bit over one-in-ten the previous quarter to nearly two-in-three. The number of households who thought this is a financially risky time declined from 16 to nine percent.

TABLE 3—FUTURE EXPECTATIONS (Percentage of Responses)

	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	39 %	53 %	8 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	46 %	34 %	19 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	13 %	71 %	16 %

BIZ ED!

TAKE TIME TO PLAN

JOHN B. STARK

ASSISTANT PROFESSOR OF MANAGEMENT, CSUB

“A Business Plan? Sure, we have a plan around here somewhere. Now, let’s see, is it in the tax file or ...?”

My experience in business is that most of us know that we have to have a plan. For some of us, that means that we have an idea in our head as to where we are headed. For others, there was actually a time when folks sat down and wrote out a planning document. However, for this second group, knowing where that document is, not to mention if it is still relevant, is the real question! Yet a third group is actively involved in an annual planning process, but it has typically been a while since the basic assumptions and goals of the enterprise have been vigorously questioned or reviewed. If you find yourself described by any of these three groups, now is a perfect time to think again about planning.

To begin, you have to dedicate yourself to a process. While it does not have to be viewed as an onerous task, it is something that requires dedication and focus. Start by setting aside some quality time. Ideally, I mean that you take time away from the business. It is very difficult to think about tomorrow if you are constantly bombarded with calls or interruptions with questions about today’s crises! As a practical matter, you likely can’t take large chunks of time away, so work in blocks of two to three hours at the start of the day or the end of the day.

Next, involve the key players in your operation. It is important to understand that no one person has all of the insight or all of the best ideas! Therefore, take advantage of the experience and wisdom that resides in your staff. Once again, you may not be able to involve everyone at the same time, as someone has to keep the doors to the business open, but you can figure out a rotation to get the key players free to join you in a sequence that makes sense,



relative to the input you expect from each of them.

Once you’ve got folks together away from the daily grind, you are ready to begin the actual planning. As a suggestion, start with a celebration of where you have been. Even if things have not been going as well as you like, the fact that you are still in business and can take time to plan for better times is well worth cheering! Next, spend some time “dreaming”. By this, I mean to think about what you really want the organization to be. From this vision, the third step is to consider your situation. In this effort, it is best to work from the outside – in. Consider what environmental opportunities there are and what threats there might be. Then look inward and honestly appraise your organization’s strengths and weaknesses. Once this is done, your fourth step is to clarify your strategic direction by articulating exactly who you want to be and where you want to go. With your “mission” now defined, the fifth step is to break the journey down into manageable objectives for the near term (the next year), intermediate term (three to five years), and the long term (five to ten years). The last step is to develop operational plans to meet the objectives (keeping in mind the environmental and organizational analysis you did earlier), including the budgets needed to support your plans.

Yes, the above process can get involved. However, research gives us compelling evidence that better planning leads to better performance. It is simply a matter of making one of the best investments in your own firm! But remember, to get the most out of this investment, two things are necessary. First, you have to work the plan. Finally, you have to remember that business plans must be “living” documents. They must be updated and reviewed to insure that they truly reflect the realities of your world!

SONCERA RENDT-SCOTT, LAURA HECHT, MARK EVANS*

Metro Bakersfield's Data Problem

What's in a number? Mark Twain once said there are lies, damned lies, and statistics. Twain's quotation is more an admonishment to consider the motives of people citing statistics than a reasoned critique of quantification. Because numbers are in fact useful, the Vision 2020 process focusing on "Greater" or "Metro" Bakersfield has a problem: socioeconomic data are reported for counties and often for incorporated cities, but never for sub-county planning areas that are a mix of incorporated and unincorporated areas. How will the community know if metro Bakersfield is making progress toward its goals if the data do not exist? In response to this concern, one of the strategies adopted by the Vision 2020 Economic Development Task Force is to "develop and implement a plan to develop statistics measuring the economy and other relevant data for Greater Bakersfield." This strategy is motivated to a considerable extent by a belief that Greater Bakersfield is "better off" than incorporated Bakersfield; some of the vibrant northwest and southwest is unincorporated. If this is true, data developed for the entire metro area could be used to better convey a favorable image -- internally to residents and externally to businesses considering Bakersfield as a future location.

However, it would be very expensive to regularly collect primary data outside of government channels. There would be no shortage of consultants lined up to charge a hefty, recurrent fee for this work, but is it worth the cost? Would this costly effort achieve Vision 2020's goal of presenting Bakersfield in a better light than officially published data covering just the incorporated areas? In this article, we use Census data to provide some evidence. Although this decennial data cannot be used to monitor year-to-year trends, it is collected at the census block level and can be aggregated to make comparisons of incorporated and Greater Bakersfield in census years.

Boundaries of Incorporated and Metro Bakersfield

The map compares the boundaries of incorporated and metro Bakersfield. Areas that are incorporated are shaded in green, while areas shaded in a tan color are unincorporated parts of metro Bakersfield as defined by the 2010 general plan. The unincorporated areas fall into three major sections: northern areas above the Kern River, southwestern areas that are west of State Highway 99, and southeastern areas that are east of Highway 99. The unincorporated areas include relatively affluent neighborhoods such as parts of Rosedale and areas west of Old River Road along both sides of Stockdale Highway. However, economically distressed neighborhoods such as those in the Cottonwood/South Union area also are unincorporated. The map illustrates there should not be any foregone conclusions: metro Bakersfield may be better off on average than incorporated Bakersfield, but it also may be worse off.

Bakersfield Metro and City Boundaries, 2003



(Continued on page 13)

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THE ECONOMICS OF MEXICAN RESTAURANTS IN KERN COUNTY

STANLEY E. CLARK, DIRECTOR, POLITICS RESEARCH CENTER, CSUB



This is a synopsis of one of a series of papers dealing with culture and assimilation among Mexican-Americans and Mexicans residing in Kern County. Presented in Houston in February 2003, this study assessed the extent to which Mexican restaurants create profits by responding to area residents, both those who are Mexican and those who are not. The paper examined type, size, location, and beverage service as factors in the Mexican restaurant industry. Evidence suggested that there are strong correlations between these factors and business success.

This was a descriptive analysis of economic power among Latinos in Kern County. In our area “Latino” is used most for politics as in the “Latino vote” and “Hispanic” more in business, as in the Hispanic Chamber of Commerce. Because the U.S. Census still uses “Hispanic,” that designation is used in the analysis except in references to the “Mexican” restaurants themselves.

Of course, “food” is a major component in global political economy, as is seen in many news reports in periodicals in the produce industry (e.g., *The Produce News*). However, businesses, non-profit organizations, and community leaders who call upon the CSUB’s Politics Research Center often do so because local data are difficult to obtain, especially in matters of business enterprise. Many organizations and media track national and state trends, but it seems that very few organizations have data at the city or county level. Thus, we focus on accumulating data on *local* minority enterprises.

Admittedly, such data are subject to validity problems. A restaurant that advertises itself as “Mexican” can have a “white” cook, and a Mexican named owner may be totally lacking in identification with the Hispanic community. However, those are not new problems. *All* assumptions can be invalid stereotypes.

Although the insight I acquire from working with Mexican entrepreneurs informs the analysis, the data in the Houston paper are all in the public realm. The County of Kern provided the basic data file, a listing of food permits with type, business name, and address. “Type” of permits for restaurants and food markets tells two things- the category and size (seating capacity for restaurants and square-foot space for markets). Although my interest was originally in restaurants, the database’s inclusion of markets and other types of permit holders made it possible to expand the analysis.

Note that “restaurants” as used in the title is a misleading, albeit functional public health term from the County’s point of view. It refers to *any* place where people purchase food to eat on the premises—anything from a stadium concession stand to a white tablecloth dining facility. For such reasons, the correct designation is really holders of “food permits.” There are many more permits, including vending machines, bakeries, food salvage plants, etc., than actual eating establishments.

Working with the County file, I added variables from the State Department of Alcohol Beverage Control’s database. Although I purposely excluded lodges and private clubs, I did utilize seven beverage license types, which are directly relevant to how “markets” and “restaurants” maximize revenues, customer loyalty, and cultural perceptions.

Mostly, the data bore out my expectations: First, despite U.S. Census figures showing that non-Hispanic businesses in Kern County dwarf Hispanic businesses in revenue, there are several hundred restaurants identified as “Mexican” that are a meaningful segment of local business enterprise. The data on markets also bore out expectations about numbers of outlets. Secondly, most Mexican restaurants rely upon Hispanics living nearby for a steady clientele. Thirdly, Mexican restaurants are “small” in the small towns, but larger on the average in the County seat, Bakersfield. Finally, many Mexican restaurants have at least a beer and wine license, and a significant number are licensed for full service in alcoholic beverages.

As presented in Table 1, this overview of the *retail* food “industry” (e.g., *not* the Frito Lay plant, Grimmway Farms, or the fruit and nut orchards) demonstrates that although “crops” dwarf retail in Kern County’s economy, restaurants and markets are substantial in numbers. It is easy to suggest based on numbers, seating capacity, and/or square footage that the establishments represented in the permits account for ten thousand jobs or more in the County. More precise estimates will come in future papers. What was of immediate interest is that “Mexican” restaurants clearly have a greater distinction and parity than “Mexican” markets. Both are out there and consequential, but the Mexican restaurant has a more salient place in the dining-out market than do the Mexican markets in retail grocery shopping. Again, the norms of culture and leisure and the role the restaurants play in eating out re-enforce the experience of eating “Mexican” --as well, of course, of going out for “Chinese,” “pizza,” etc.

(Continued on page 9)

Additional data brought to bear an economic reality based on ethnicity and culture. The restaurants and markets, especially the smaller ones, rely on Hispanic clients in many instances. This is obvious for the incorporated cities and “places” (such as Lamont, which is not a city). It is only slightly less clear in Bakersfield. Tables 2a. and 2b. include two sets of Zip Codes for Bakersfield, and the correlation ethnicity with Mexican restaurant location is strong as shown by Census Tract detail within those zip codes.

Mountain and Eastern Kern County are known for Federal facilities such as China Lake Naval Weapons Testing Center and Edwards Air Force Base, State prisons, retirement communities in and around Tehachapi and small old mining towns-- none of which gives rise to large aggregates of Mexican-American citizens. Not surprisingly, the numbers of Hispanic or Mexican restaurants and markets is correspondingly low in “Other Kern County.”

Further, the tables showed that it is “restaurants” with beer and wine or full-service alcohol licenses – not markets, pubs, or bars – wherein the Hispanic identification reaches a greater parity. In actuality, since many of the food permit eating places with ABC licenses include the outlets of “chains” such as Marie Callender’s, etc., the Mexican restaurants are an even larger portion of the independently owned businesses than appears in such tables. Furthermore, Table 3 suggests that within the limits of our correctly coding ethnic identification of the primary ABC licensee, the eating places with meals and alcohol service are again the categories where Latinos and Hispanics are represented in proportions more nearly equal to their numbers in population in our County.

Finally, my analysis on listings under “Restaurants” in the *Pacific Bell Bakersfield Yellow Pages* reinforced these conclusions. Not surprisingly, distance is a major constraint, and the west side communities that are closer to the County seat and

(Continued on page 10)

Table 1. Food Permits in Kern County

	<i>Non-Hispanic</i>	<i>Hispanic</i>	<i>Total</i>
<i>Restaurants</i>	1,386	250	1,636
<i>Markets</i>	837	46	883
<i>Others</i>	139	15	154
Total	2,362	311	2,673

Note: There are many more permits than establishments because many institutions and businesses require multiple permits. For example, a high school might easily have three permits: the cafeteria, the student snack bar, and the athletic concession stand. “Hispanic” is all Latino named and/or Latin American cuisine establishments, which are almost entirely in the private sector. A few such businesses are Salvadorian or other Latin, but nearly all the Hispanic are “Mexican.”

Table 2a. Location of Restaurant Permits in Kern County

	Hispanic % Population Share	Non-Hispanic	Hispanic	Total
Arvin (93203)	88	15	12	27
Buttonwillow (93206)	68			
Lamont (93241)	89	18	13	31
Delano (93215)	69	37	20	57
Shafter (93263)	68	21	4	25
McFarland (93250)	86	20	4	24
Wasco (93280)	67	40	9	49
Bakersfield (93301-93307)	44	433	95	528
Bakersfield (93308-93313)	19	375	53	428
Other Kern County	15	427	40	467
Total	38	1,386	250	1,636

Note: Hispanics are approximately one third of the City of Bakersfield’s population. The Zip Codes for the City, however, do contain County “islands” and urbanized areas not in the City, where the Hispanic population percentage is lower. None of this changes the fact that the Hispanic population both in the City proper and in adjacent County areas is significantly higher in 93301-93307 than in 93308-93313.

Mexican Restaurants (Continued from page 9)

that are heavily Hispanic, i.e. Mexican sixty percent or more, have both their residential and business listings in the white or yellow pages of Pacific Bell's Bakersfield Directory. Thus, this residential and business distribution provides a built-in incentive for restaurants in Arvin, Lamont, Delano, McFarland, Wasco, and Shafter to advertise in Bakersfield yellow pages. This so-called natural incentive aside, it appears that many Mexican restaurants are operating at a margin sufficient to pay for such advertising in the yellow pages of the area's most established telephone directory.

In conclusion, it appeared that "Mexican" restaurants and Hispanic markets are an economic sector in central California

counties such as Kern whose growth and development is worth tracking by County planners, the Small Business Administration, private lenders, and others, including political candidates who want exposure and support from successful business owners. The next paper will attempt to validate this conclusion by analyzing success and failure among these enterprises. The Mexican restaurants in our area, like Chinese, Thai, Italian delis and other food establishments trading on cultural distinctions in cuisine and service, are not a unique phenomenon, but in central California, they are enterprises that can fuel mobility into the middle-middle and upper-middle class. Any possibility like that is important to politics and public policy.

Table 2b. Number and Location of Food Market Permits in Kern County

Locations	Hispanic % Population Share	Name and/or Menu		Total
		Non-Hispanic	Hispanic	
Arvin (93203)	88	21	3	24
Buttonwillow (93206)	68	11	-0-	11
Lamont (93241)	89	22	6	28
Delano (93215)	69	38	8	46
Shafter (93263)	68	20	1	21
McFarland (93250)	86	10	2	12
Wasco (93280)	67	19	4	23
Bakersfield (93301-93307)		303	16	319
Bakersfield (93308-93313)		209	2	211
City of Bakersfield	33			
Other Kern County	38	184	4	188
Total		837	46	883

Table 3. Alcoholic Beverage Permits in Kern County

ABC License Type	Non-Hispanic	Hispanic	Total
Code 20 (1) Take-out beer, wine	319	29	348
Code 21 (2) Take-out beer, wine, liquor	199	6	205
Code 42 (3) Beer, wine w/o food	14	4	18
Code 48 (4) Beer, wine, liquor w/o food	47	3	50
Code 40 (5) Beer, wine w/food	25	7	32
Code 41 (6) Beer, wine w/food	173	80	253
Code 47 (7) Beer, wine, liquor w/food	94	46	140
Total	871	175	1,046

BAKERSFIELD'S APARTMENT MARKET GOING STRONG

MARK J. BONAS, MULTI-HOUSING GROUP,
CB RICHARD ELLIS

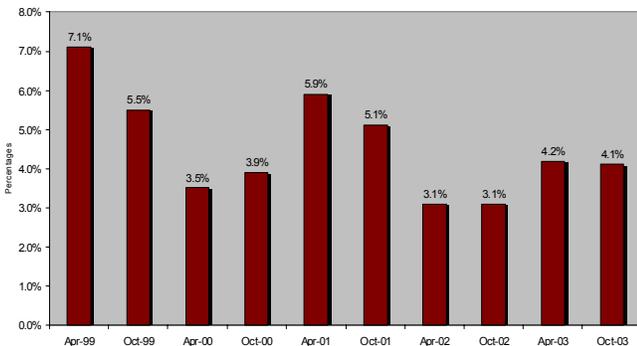


Bakersfield's apartment market continued a bullish pace through 2003. Vacancy rates, rent growth, investor interest and new construction all posted numbers considered favorable and consistent with a strong market. Part 1 of a 2-part series.

Vacancy Rates

Vacancy rates continue to hover in a range regarded as encouraging by landlords and investors. A biannual apartment market survey, conducted by Kern Appraisal Company, shows that the October 1, 2003 citywide vacancy of 4.1% is virtually unchanged from the April 2003 survey of 4.2%. Historically, vacancies have averaged a downward trend, since its high of 7.1% in the April 1999, to 3.1%, its lowest point, in April of 2002. Citywide vacancy has been under 5% for the last two years. Vacancy under 5% is considered to be better than average or a landlord's market.

Historical Vacancy Rate
Metropolitan Bakersfield Apartment Market



Since the April survey, physical vacancy (defined as an actual vacant unit) declined in the Southwest, Far Southwest, Central, and South sub-markets, increased in the East, North, and Northwest sub-markets, and was unchanged in the Northeast sub-market. The South and Northeast sub-markets reported the lowest physical vacancy rates at 1.5% to 2.3%. The East and Northwest sub-markets reported the highest vacancy rates at 9.3% to 11.8%, each representing a significant increase since

the previous April 2003 survey. Historically, however, the Northwest sub-market has been below, not above, the citywide average. The higher vacancies in the Northwest include new apartments in the rent up stage. With an additional 200-300 new apartments coming on line in the next year in the Northwest sub-market, the Northwest is expected to have an above normal vacancy rate.

Promotional vacancies have not had much of an impact on the market. Promotional vacancy consists of concessions and/or promotions, usually in the form of cash credits or free rent, are used to attract and retain tenants. This affects the actual rent collected and is primarily used in the upper end apartment complexes when extending the term of a lease, or in complexes (or markets) that have experienced a significant loss of tenancy. Only 13% of the complexes in the October survey offered a promotion. This is similar to the April 2003 survey of 12%. A \$25 to \$100 per month reduction in rent for six-month to one-year lease, or \$100 off move-in, are examples of the most typical types of promotions.

Bedroom by Bedroom

Citywide, the one-bedroom apartment physical vacancy rate (studios, and lofts were included as 1 bedroom units) was unchanged at 3.7% since the April survey. The two-bedroom unit was virtually unchanged, as well, at 4.5%. The three-bedroom apartment units report a physical vacancy of 3.7%, which is a decrease from 4.2% in April 2003.

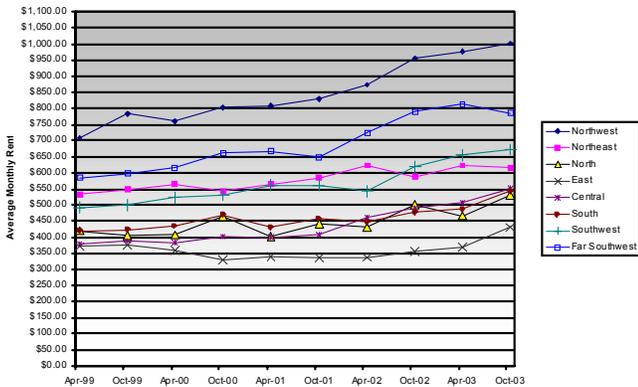
The most common reasons given by tenants vacating apartment units are 1) tenants purchasing new homes and 2) tenants relocating due to employment related issues. Most new tenants continue to be obtained through employment relocation and referrals. Of the survey respondents, 66% reported no change in traffic, 13% reported an increase in traffic, and 22% reported a decline in traffic. This is similar to the April 2003 survey.

(Continued on page 12)

Rent Growth

Since the April survey, more complexes have experienced an increase in rental rates. About half of the respondents reported a rent increase, with the majority reporting an increase between 3% to 10%. Some complexes increased rents by 20% to 30% over the last six months. These larger increases were due primarily to investors purchasing rehab properties, repositioning the property and increasing rents. About 5% of the properties reported a decrease, and 12% no change. The following two charts display the historical average rent trends by sub-market and unit type.

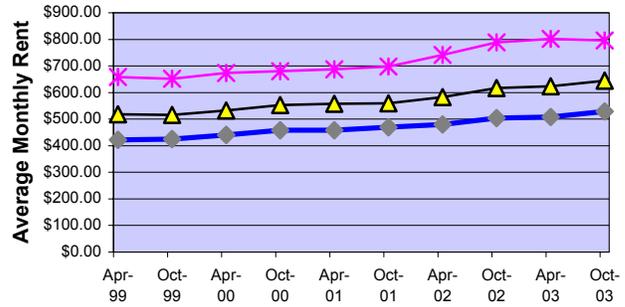
Submarket Rent Trends
City of Bakersfield



The rent trend by sub-market chart indicates the Northwest and Far Southwest have the highest average rent per unit at about \$800 to \$1,000/month, while the South, North, Central, And East are at the lower end of the range at about \$450 to \$550/month. All sub-markets have been trending upward, which is a typical market trend when vacancies are low. (The slight downtrend in the Far Southwest is somewhat misleading, as six of the seven complexes in the current survey displayed increases from six months ago. The current survey lacked two high-end complexes, which historically have been included.)

The rent trend by unit chart indicates increasing rents for one bedroom units at \$529 and two bedroom units at \$645, but a leveling trend for three bedroom units, at \$796, over the last six months. Competition from an increasing number of three bedroom homes, purchased as investments and rented, could be slowing the upward trend in 3 bedroom units.

Rent Trends By Unit Type
City of Bakersfield



Summary

The supply and demand factors having the greatest effect on apartment vacancy are population and employment growth or decline (demand generators), and the increasing amount of new home construction and competition from single-family homes being purchased as rental units (supply). The rate of increase in non-farm employment has been slow (1-2%), but continues to steadily increase. The potential adverse effect from layoffs in schools, due to the state budget problems, was limited and off set by employment growth in other sectors, and population growth.

The apartment supply, which until recently has remained stagnate, is changing. The first large apartment complex constructed in nearly 10 years, the 138 unit Polo Villas at Jewetta Avenue and Hageman Road is nearing full occupancy. A 78-unit affordable housing complex on Brundage Lane, east of "P" Street was completed about May and rented up in one month. Over the last six months the Citywide apartment market absorbed about 200 units without a significant change in vacancy. Only the Northwest sub-market, where the new construction occurred, reported a significant upward change in vacancy from April 2003. Nearing completion is 24-lot fourplex subdivision on Allen Road, south of Rosedale Highway, and a 96-unit fourplex subdivision in Riverlakes off Coffee Road. Another 116-unit complex in Riverlakes is currently under construction. All are located in the northwest sub-market and will adversely affect the vacancy in the Northwest over the next year.

Inquires about other potential apartment developments in the Northwest, North, South, and Northeast sub-markets are occurring. In the concept and planning stages are another 1,500 to 2,000 apartments. These do not include the remodel of +/- 105 apartments in the Parde, and +/- 258 apartments on Bernard Street, completing mold remediation. Both are projected to come on line in 2004.

(Continued on page 15)

Apartment Market (Continued from page 12)

As previously mentioned, another source of rental competition is from single-family homes. Due to increased demand by investors, there is a shortage of quality apartment properties. As an alternative, some investors have turned to buying single-family homes, increasing the supply of rentals.

As long as interest rates remain at historic lows, new home construction, which is setting all time new highs, will remain a primary competitor. Within the last six months, about 200 apartment units have come on line

and been absorbed into the market without a significant citywide increase in vacancy. But, another 500 units are projected to come on line within the next six months (including the Padre and Bernard Street). Coupled with investors buying rental homes, supply is projected to increase faster than demand over the next six months. In view of the current trends, particularly with the number of new housing units in progress (apartments and single family homes), physical vacancy will most likely increase as these new units introduced into the market. Temporary promotions will most likely increase as well and rent increases are forecast to slow.

Economic Well-Being (Continued from page 7)

Economic Well-Being: Bakersfield City versus the Metro Area

We compared two important measures of economic well being. The table summarizes our findings for personal income per capita (unadjusted for inflation) and the unemployment rate.

There clearly is an advantage in using published data for incorporated Bakersfield rather than Kern County to depict the urban area. The unemployment rate in 2000 was 9.6% for Bakersfield City compared to 12.0% for Kern County. Per capita income was \$22,929 in incorporated areas of the city compared to \$21,508 in the county-at-large. However, economic well-being in the entire Greater Bakersfield area falls short of incorporated Bakersfield: the economic condition of people living in distressed unincorporated areas more than offsets that of people in the relatively affluent areas. The unemployment rate in 2000 was 10.0% in the metro area compared to 9.6 % in Bakersfield City. Per capita personal income was \$22,240 in the greater metro area compared to

\$22,929 in the incorporated city. The shortfalls are not improving over time. Metro Bakersfield's unemployment rate was a constant 0.4 percent higher in 1990 and 2000. Metro Bakersfield's income per capita decreased in relative terms -- from 97.5 percent of Bakersfield City's in 1990 to 97.0 percent in 2000.

Recommendations

We do not recommend that the community marshal resources in order to develop currently unavailable statistics for the metro area in order to improve its image. Published data for incorporated Bakersfield is readily available and depicts Bakersfield in a better light than would comparable data for Greater Bakersfield. However, grant writers can better document community needs by using census data to tabulate selected indicators for metro Bakersfield. These tabulated statistics would have credibility, since they would be constructed directly from official census data. Recalling Mark Twain's observation, even if locally derived unofficial data could be developed that paints Bakersfield in a better light, it would be received with skepticism.

REGION	UNEMP RATE, 1990	UNEMP RATE, 2000	INCOME PER PERSON, 1990	INCOME PER PERSON, 2000
Kern County	9.7 %	12.0 %	\$13,591	\$21,508
Bakersfield City	8.2 %	9.6 %	\$14,827	\$22,929
Metro Bakersfield	8.6 %	10.0 %	\$14,450	\$22,240

ECONOMIC OUTLOOK OF CENTRAL CALIFORNIA¹



WELLS FARGO BANK ECONOMICS

Central California's economy could outperform the South this year in terms of employment growth. A weak U.S. dollar will help Central California's agricultural exports from fruits and vegetables to cotton, and even wine. Population growth is expected to remain over twice the national average this year due to high birth rates and net in-migration, helping to boost retail sales, education and health services, and even housing. Moreover, the national manufacturing and technology recession has not impacted Central California's food processors. A low relative cost of living, better employment prospects, and cheaper housing, is attracting more Californians and immigrants to the area. Northern and Southern California's economic troubles are turning out to be Central California's economic gain. Better than expected, population and income growth in the region in 2002 has prompted us to boost our forecast for employment, income, and population growth for 2003. The region's high structural unemployment, at around 11.0 percent, will remain a problem despite better overall employment growth than the state average.

Central California Agriculture- A Race To The Top Instead of A Race To The Bottom

Two things have become painfully evident for the agricultural heart and soul of California. First, there are only two strategies to survive and thrive in the long-term outlook for Central California agriculture. One requires Central California producers to become the lowest cost producers in the world in this increasing global market. The other demands that Central California producers differentiate their products by timing, packaging or quality attributes that move them into the high margin branded world. Every strategy in between is just a matter of marking time before getting assigned to the dustbin of history. Unfortunately between land, labor, taxes and regulatory requirements, Central California producers would need unsustainable yield advantages to be the low cost global supplier of commodities. Inevitably, this means California agricultural producers will continue their marathon run to the higher quality and higher margin differentiated markets. This strategy will be a winner given California's sterling global brand image, and its access to outstanding capital, marketing and technological resources in the state. The transformation will create some outstanding agricultural producers, but the

(Continued on page 15)

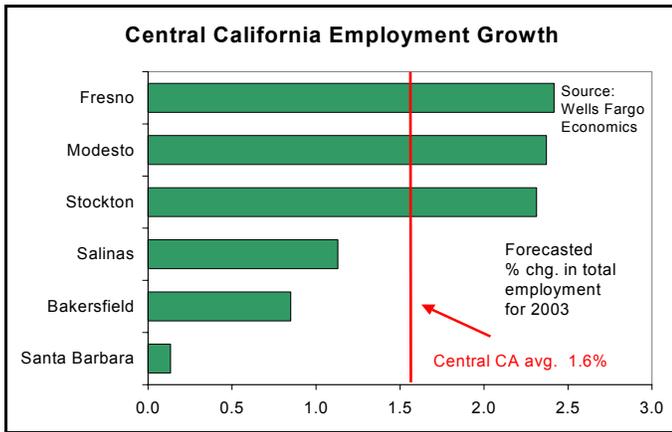
	Central California*						
	1998	1999	2000	2001	2002	2003f	2004f
Employment (ths.)	1,048	1,083	1,116	1,146	1,158	1,177	1,196
Employment growth, % chg.	2.6	3.3	3.1	2.6	1.1	1.6	1.6
Unemployment rate, %	11.3	10.2	10.3	10.0	11.0	11.0	10.6
Personal Income growth, % chg.	6.6	5.3	7.5	3.3	4.9	3.8	4.6
Population (ths.)	3,292	3,351	3,411	3,490	3,572	3,643	3,702
Population growth, % chg.	1.5	1.8	1.8	2.3	2.4	2.0	1.6
Net migration (ths.)	16	26	27	44	49	35	23
Median existing home prices, Ths. \$'s	155.6	168.7	188.6	208.2	235.9	253.3	251.4
(Percent change in home prices)	5.4	8.5	11.7	10.4	13.3	7.4	-0.7
Housing Starts, # of units	16,015	15,571	17,489	17,571	21,111	20,894	16,834
Single-family, # of units	13,522	14,345	16,534	16,604	19,168	19,239	16,135
Multi-family, # of units	2,493	1,225	955	968	1,943	1,655	699

*Central CA Defined as Santa Barbara MSA, Salinas MSA, Stockton MSA, Modesto MSA, Fresno MSA, Bakersfield MSA
Sources: BLS, BEA, Census Bureau, National Association of Realtors, Economy.com, and Wells Fargo Economics

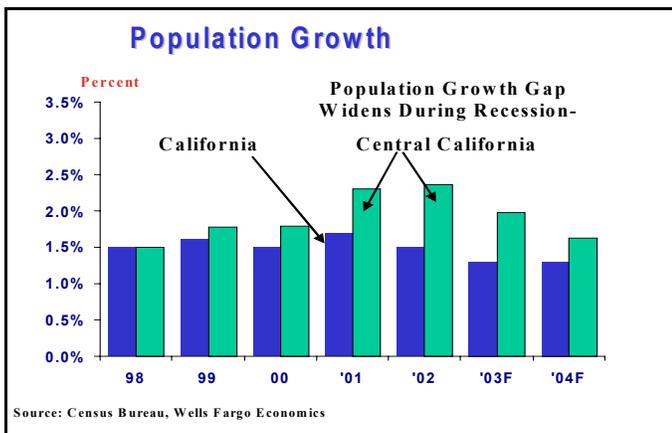
¹This study was published by Wells Fargo Bank Economics on July 1, 2003. The original study also covers the state and northern and southern California. For the full report see <http://www.drsohn.com/04pres/anderson/CALSEP03.pdf>

firms that have not started or are not running hard enough will find their odds of survival poorer than last week's discarded lottery ticket.

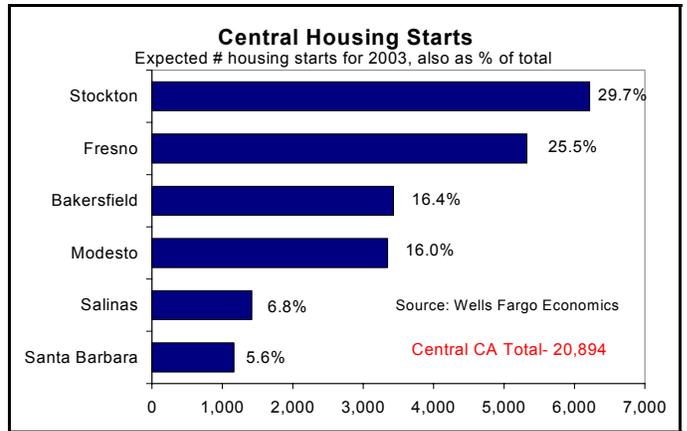
We have moved our forecast for employment growth in Central California higher based on benchmark revisions to the 2002 data. Fresno's growth is expected to lead the region at 2.6 percent in 2003, with Modesto and Stockton coming a close second and third. Population growth and net-migration into these metro areas continues to exceed expectations.



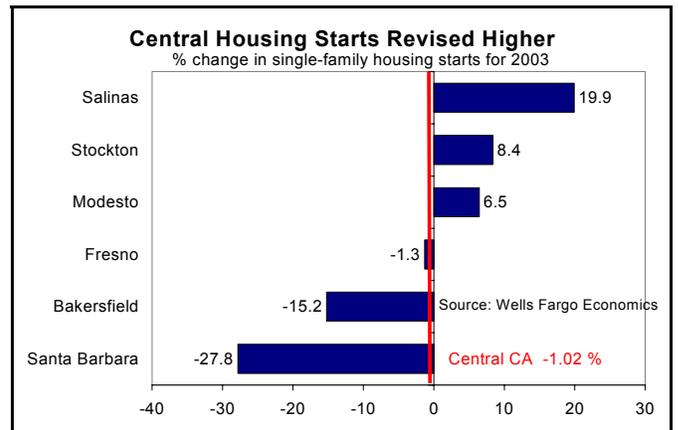
Central California's population growth continues to amaze. 2002 population growth estimates show Central California's population exceeding the national average by a factor of 2.5 in 2002, which is more than double the state's average in that year. We expect the population growth gap to close somewhat over the next couple of years as economic activity picks-up elsewhere in the state and net-in migration slows.



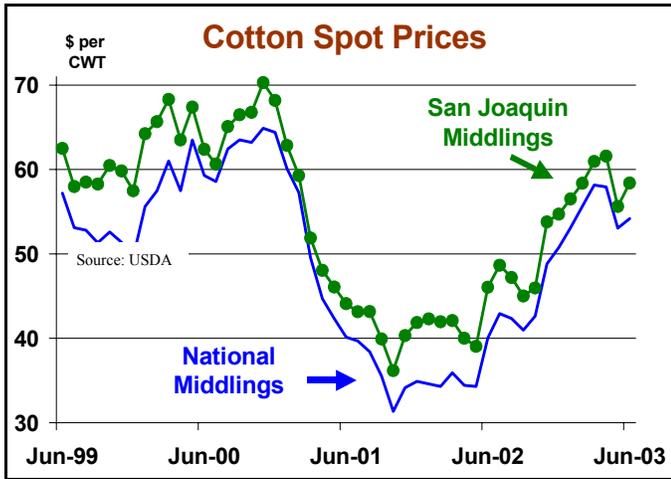
Stockton, Fresno, and Bakersfield are where most of Central California's home building is occurring. Stockton itself is expected to comprise about a third of all single-family homes started in Central California in 2003. In comparison, home building activity in Salinas and Santa Barbara is miniscule.



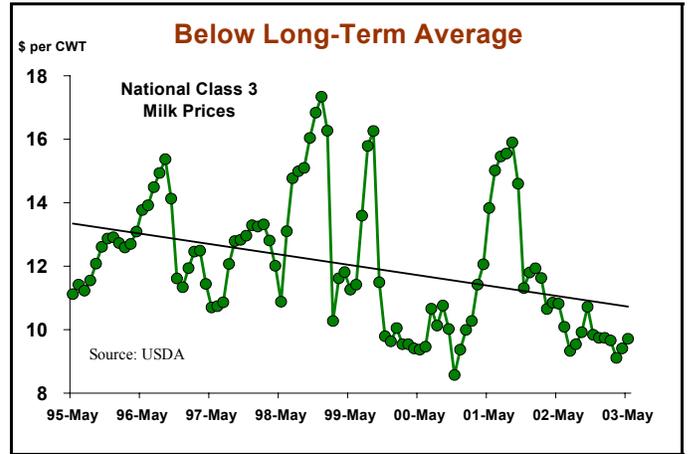
Central California's housing starts forecasts for 2003 as a whole have been revised higher, due to better than expected migration trends and the continuation of 45 year low mortgage rates. Even so, home building trends are expected to be quite diverse depending on the metro. Single-family construction in Salinas, Stockton, and Modesto is expected to accelerate over last year, while Bakersfield and Santa Barbara appear to be slowing.



Central California's cotton prices have nearly recovered to the levels seen before commodity prices and the global economy took a tumble. San Joaquin middlings prices are holding well above the national middlings range. The weaker dollar will help fuel the current export expansion.



Central California's dairy industry continues to suffer from historically low milk prices. While prices have gained modestly in recent months, the long-term trend appears well entrenched. We are forecasting a turn around over the coming year, however. Herds are beginning to be cutback, and the growth in supply is slowing. Stronger economic and population growth will also be supportive of demand. Prices could go as high as \$14.25 per CWT within the year.



Econ Brief!

Ethnic Diversity in Kern County

Demographic data indicate a shift occurring in the ethnic composition of Kern County in favor of the minority groups. The population share of the White residents declined from 62.8 percent in 1990 to 56.6 percent in 2000. In contrast, the Hispanic population share increased from 28.1 to 33.3. Likewise, both African Americans and Asian and Pacific Islanders gained greater shares of the county population.

By the year 2005, we project the population share of the White to continue to decline in favor of the Hispanic, African American, and Asian and Pacific Islander. The population share of the Native American would remain constant.

Population Shares by Ethnicity (%)					
Year	White	African American	Hispanic	Asian & Pacific Islander	Native American
1990	62.8	5.3	28.1	2.8	1.0
1995	59.9	5.6	30.5	3.0	1.0
2000	56.6	6.0	33.3	3.1	1.0
2005	53.1	6.3	36.1	3.5	1.0

Source: RAND California

ECONOMIC INDICATORS

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

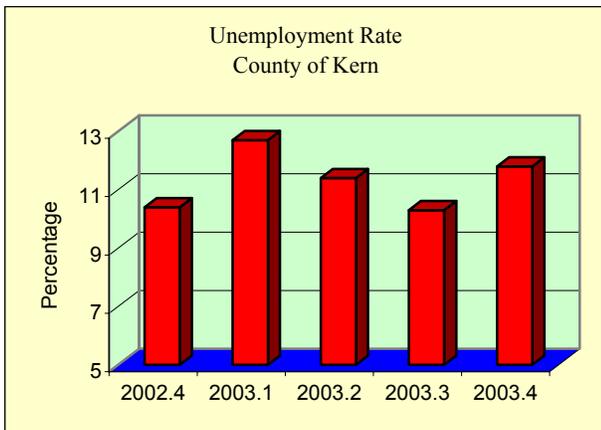
Unemployment Rate

A large decrease in farm employment offset the gain in nonfarm and residual (i.e., self-employed workers and those who work outside place of residence) employment. The farm labor market lost 15,433 jobs whereas the nonfarm and residual markets added 2,434 and 3,033 jobs, respectively. The net result was a loss of 9,966 jobs. In the meantime, the labor force declined by 6,634 and unemployment increased by 3,400 persons.

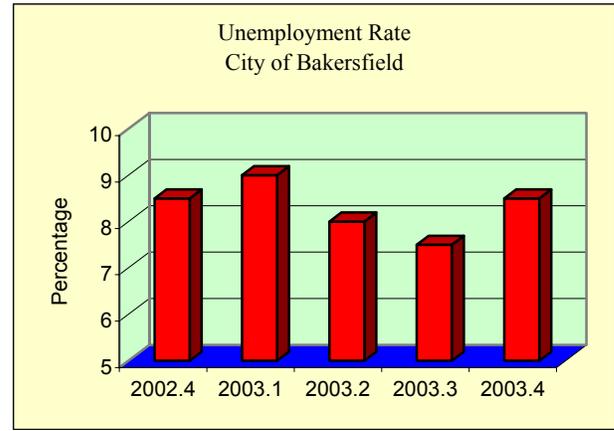
Quarter 2003	Labor Force	Employment	Unemployment	Nonfarm Employment	Farm Employment	Residual Employment
Third	311,767	277,833	33,900	203,233	53,633	20,967
Fourth	305,133	267,867	37,300	205,667	38,200	24,000
Difference	-6,634	-9,966	3,400	2,434	-15,433	3,033

Note: Calculated from seasonally unadjusted monthly data published by California Employment Development Department, www.calmis.cahwnet.gov.

When adjusted for seasonality, the rate of unemployment in Kern County climbed from 10.3% in the third quarter to 11.8% in the fourth quarter of 2003. Compared with four quarters ago the county's unemployment rate was 1.4% higher. The county's unemployment rate was 5.2% higher than the state rate and 5.9% greater than the national rate.

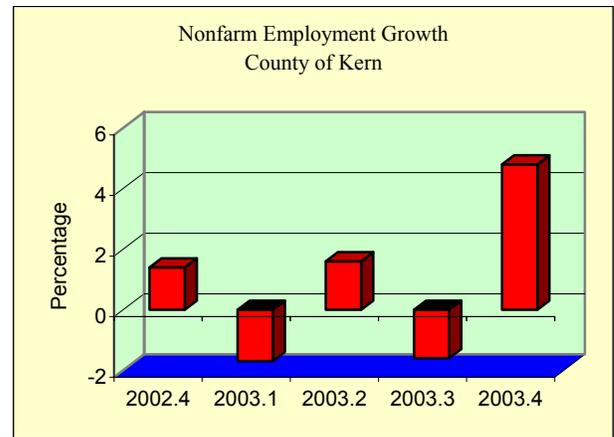


The *seasonally adjusted* unemployment rate in the City of Bakersfield jumped from 7.5% in the third quarter to 8.5% in the fourth quarter of 2003. Compared with four quarters ago, the city's unemployment rate was unchanged. Bakersfield's unemployment rate was 3.3% lower than the county rate, but 1.9% higher than the state rate and 2.6% greater than the national rate.

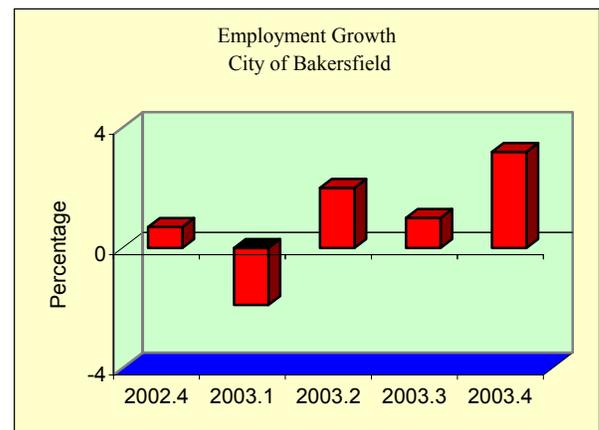


Nonfarm Employment Growth

Nonfarm employment increased at an annual rate of 4.8% in the fourth quarter of 2003. Among the nonfarm industries, construction, wholesale and retail trade, finance and insurance, state government, and local public education added jobs. But, manufacturing, professional and business services, leisure and hospitality, federal government, and county and city governments reduced employment.



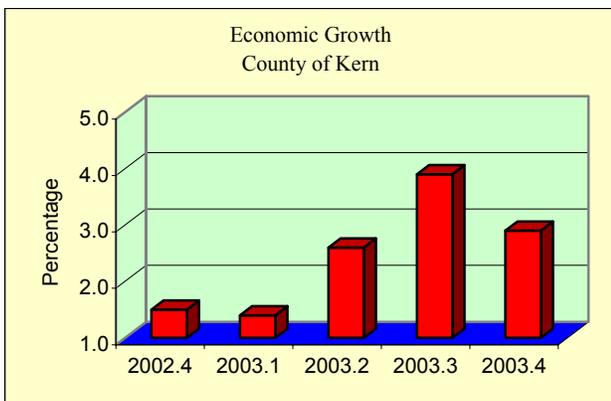
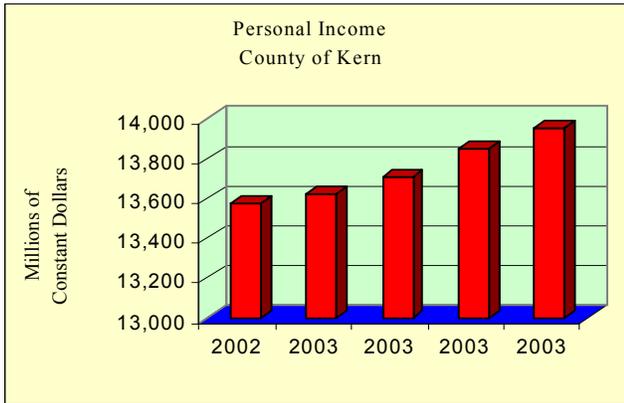
In the City of Bakersfield, employment growth accelerated from an annual rate of 0.8% in the third quarter to 3.2% in the fourth quarter of 2003.



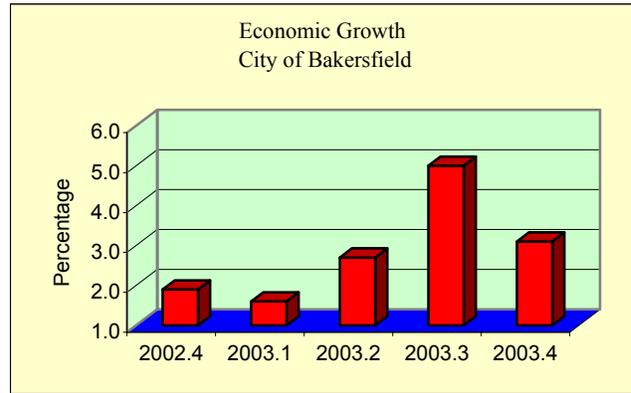
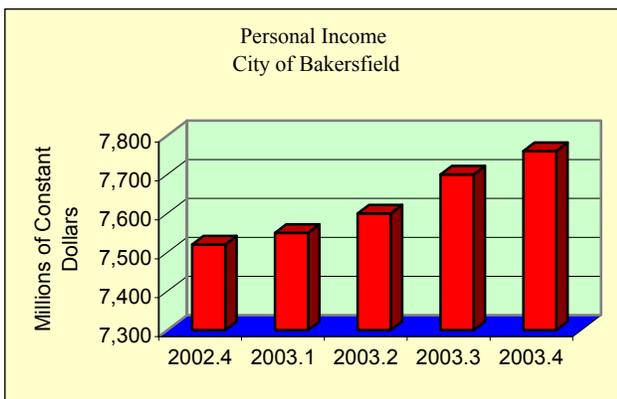
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Total Personal Income

Kern County’s total personal income (in constant 1996 dollars) increased continually from \$13.85 billion in the third quarter to \$13.95 billion in the fourth quarter of 2003. Hence, the county’s economy expanded by \$100 million or at an annual rate of 2.9%. Since the fourth quarter of 2002, the local economy has grown at an average annual rate of 2.5%.

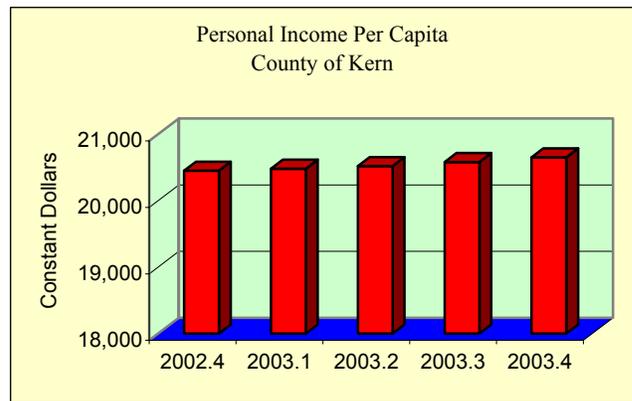


In Bakersfield, total personal income (in constant 1996 dollars) rose from \$7.70 billion in the third quarter to \$7.76 billion in the fourth quarter of 2003. Hence, the city’s economy expanded by \$60 million or at an annual rate of 3.1%. Since the fourth quarter of 2002, the Bakersfield’s economy has grown at an average annual rate of about 3.0%.

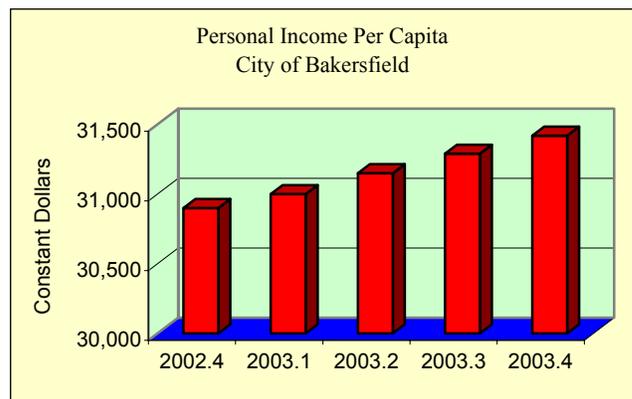


Personal Income Per Capita

In Kern County, personal income per capita (in constant 1996 dollars) rose from \$20,580 in the third quarter to \$20,650 in the fourth quarter of 2003. Over the previous four quarters, the county’s personal income per capita has increased by \$200.



Bakersfield’s personal income per capita (in constant 1996 dollars) rose from \$31,290 in the third quarter to \$31,420 in the fourth quarter of 2003. Since the fourth quarter of 2002, Bakersfield’s personal income per capita has increased by \$520.

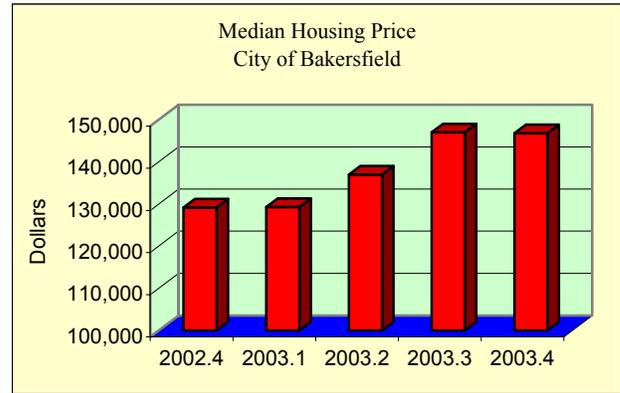
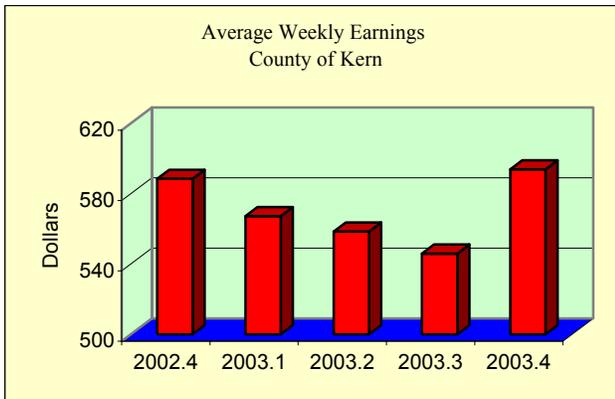


Average Weekly Earnings

In Kern County, average weekly earnings in the manufacturing industry inclined by \$48 from \$545.90 in the third quarter to

(Continued on page 19)

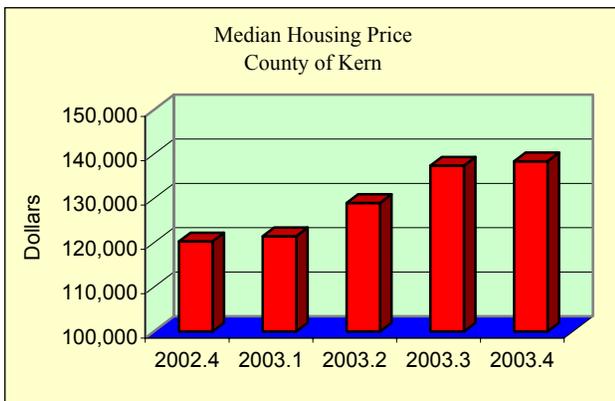
\$593.90 in the fourth quarter of 2003. This rise was attributed mainly to the increase in the average weekly hours from 35.6 to 39.6. Compared with four quarters ago, manufacturing workers made an additional \$5.40 a week.



Housing Price

In Kern County, the median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) rose by \$980 or 0.7% from \$137,420 in the third quarter to \$138,800 in the fourth quarter of 2003. Since the fourth quarter of 2002, the county’s median price has increased by \$18,100 or 15%.

City	Median Sales Price (\$)	Change from Previous Quarter (%)
California City	95,000	-0.4
Delano	99,000	-3.1
Ridgecrest	108,000	8.1
Rosamond	150,800	6.1
Taft	74,700	6.7
Tehachapi	167,500	3.0
Wasco	95,200	10.4

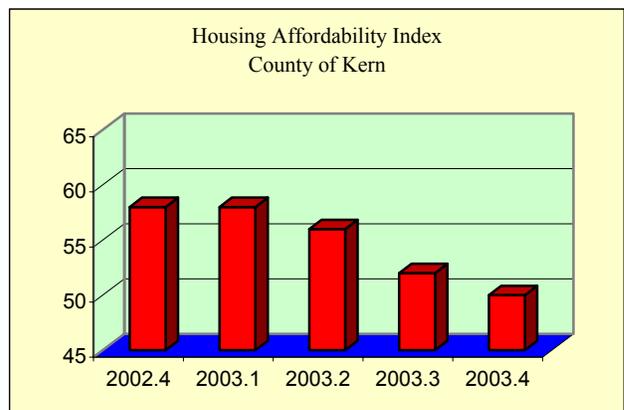


Housing Price Affordability¹

The index of housing affordability declined two percentage points from 52% in the third quarter to 50% in the fourth quarter of 2003. Compared with the state’s affordability index of 24%, Kern County remains one of the most affordable areas of California.

Over the past four quarters, the county’s index fell 8 percentage points. Rising housing prices contributed to the decline in the housing affordability index. This current index value indicates that a family earning the median household income has 50% percent of the income necessary to qualify for a conventional loan covering 80% of a median-priced existing single-family home.

In Bakersfield, the median sales price of all homes remained flat. It plunged by \$200 or 0.1% from \$147,000 in the third quarter to \$146,800 in the fourth quarter of 2003. Still, the city’s median price was \$8,400 higher than the county’s average. Since the fourth quarter of 2002, the city’s median price increased by \$17,600 or 13.6%.



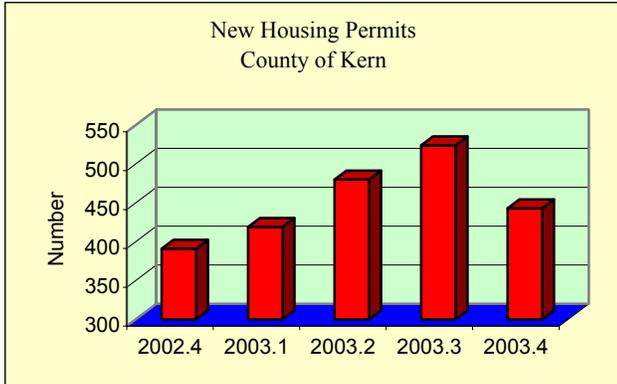
In the fourth quarter of 2003, the median sales price of all homes appreciated in Ridgecrest, Rosamond, Taft, Tehachapi and Wasco, but depreciated in California City and Delano.

(Continued on page 20)

¹Data on Housing Affordability Index and New Housing Permits are the average of October and November. Data for the month of December were not available at this time. The median housing prices are averaged from data for all three months.

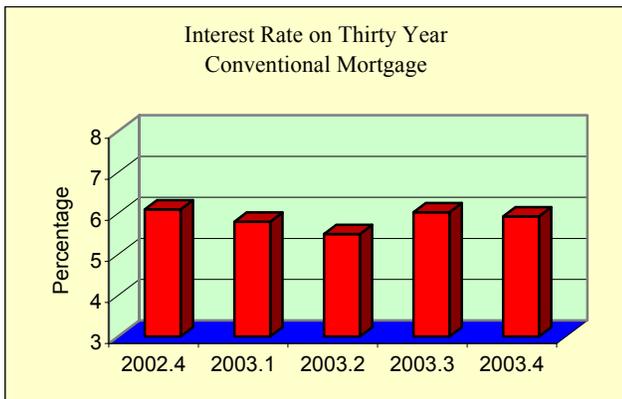
New Housing Permits

In Kern County, the number of construction permits for new single-family homes decreased by 44 from 524 in the third quarter to 443 in the fourth quarter of 2003. Compared with four quarters ago, 52 more new housing permits were issued.



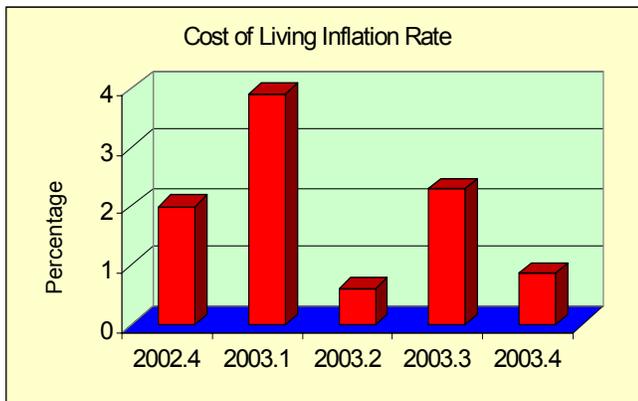
Interest Rate

The interest rate of thirty-year conventional mortgage loans dropped from 6.03% in the third quarter to 5.93% in the fourth quarter of 2003. Compared with four quarters ago, the interest rate was 0.15% lower.



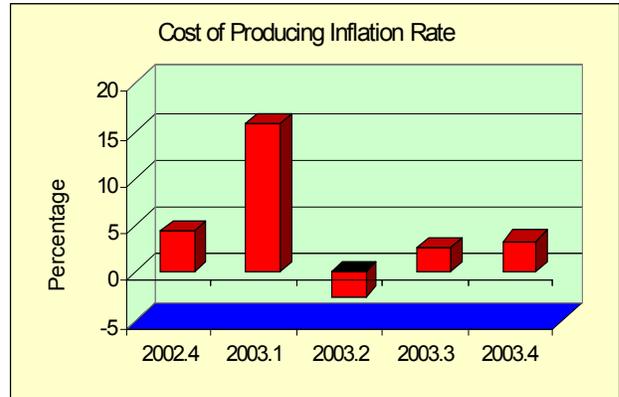
Inflation Rate

The Consumer Price Index for all urban areas (1996 =100) rose from 184.5 in the third quarter to 184.9 in the fourth quarter of 2003.



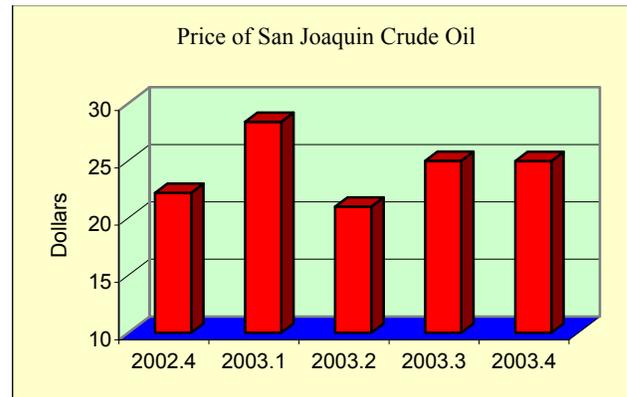
of 2003. The cost of living inflation rate ascended at less than 1% per year during this quarter.

The Producer Price Index for all finished goods (1996 =100) rose from 138.1 in the third quarter to 139.2 in the fourth quarter of 2003. The cost of producing inflation rate ascended from 2.7 to 3.4% per year during this quarter.



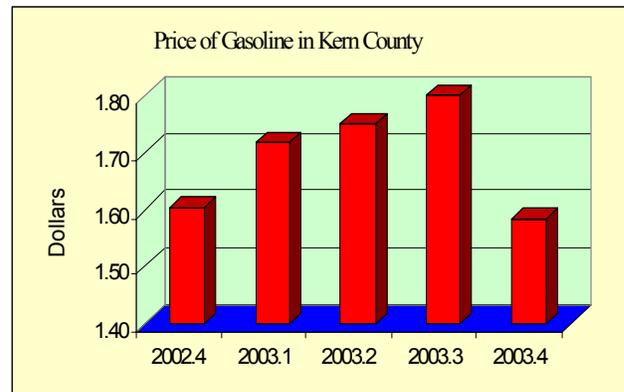
Price of Crude Oil

The average quarterly price of the San Joaquin Valley heavy crude oil declined slightly from \$25.04 per barrel in the third quarter to \$24.98 per barrel in the fourth quarter of 2003. Compared with four quarters ago, the price of crude oil was \$2.78 higher.



Price of Gasoline

In Bakersfield, the average retail price of regular gasoline per gallon plunged from \$1.80 in the third quarter to \$1.58 in the fourth quarter of 2003. Compared with the fourth quarter of 2002, the average price was 2 cents lower.



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Econ Brief!

California's Business Tax Friendliness

The Tax Foundation compiles fiscal data to construct the State Business Tax Climate Index. This index is a composite of five specific indexes devoted to major fiscal features which influence business decisions, in particular, and economic climate, in general. Components of the index are the (1) corporate income tax, (2) individual income tax, (3) sales and gross receipts tax, (4) state's fiscal balance, and (5) administrative complexity of the state's tax system as measured by its conformity with other systems.

In 2002, California is ranked 49th in the nation in business tax friendliness. It is placed next to the last -- ahead of Mississippi and behind Arkansas. All California's neighbors are ranked higher in business tax friendliness. California is ranked 28th in the efficiency of the corporate income tax, 44th in income tax, 30th in sales and gross receipts tax, 49th in fiscal balance, and 48th in tax base conformity. These data indicate that the state's tax burden is relatively high and its tax system seems to discourage business investment. Hence, the state's economic climate is deemed comparatively inefficient in creating jobs and incomes.

State	Rank	Score
Wyoming	1	8.30
New Hampshire	2	8.05
Nevada	3	7.91
Oregon	9	7.20
Arizona	17	6.46
Utah	34	5.72
Arkansas	48	4.43
California	49	4.36
Mississippi	50	3.97

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